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SUBJECT: TIBET: NEPAL SEEKS INCREASED PRC TRADE/AID/TRANSPORT LINKS

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¶1. (SBU) Summary: Nepal seeks to be a transit point between India and China and hopes to see increased development assistance and investment from the PRC, Nepalese Consul General in Lhasa told CG recently during a visit to the Tibetan Autonomous Region (TAR). Nepal seeks lower content requirements for exports to the PRC, and reported that Chinese businesses are interested in investing in hydropower in Nepal. Improving road links should expand trade, but Nepal's request for China to extend the Qinghai-Tibet railroad to the border has not yet made it into PRC planning, he said. Comment: While Upadhaya was enthusiastic on the prospects for increased trade and aid links, a PRC official in a separate meeting called this just a "beautiful dream in Nepalese hearts." Embassy Kathmandu noted that despite Nepalese ideas of a broad bilateral relationship, the PRC's real interest is preventing Tibetans in Nepal from causing unrest in China. End Summary and Comment.

Close 'Trilateral' Relations: For Trade or Security?

¶2. (SBU) The "Nepal-Tibet-China relationship" is multidimensional and relations are very close, Nepalese Consul General Naindra Upadhaya said. (Note: Upadhaya, who is from Nepal's Ministry of Commerce, was joined by Consul Tej Chhetri of the Ministry of Foreign Affairs. End Note.) Being sandwiched between the giants of India and China, Nepal maintains balanced relations with both; "We want to be a transit point," Upadhaya said. Among various bilateral mechanisms between Kathmandu and Beijing, two specific agreements exist regarding tourism and trade with the TAR. Meetings for the latter agreement rotate between Lhasa and Kathmandu, he said.

Nepal Seeking to Increase Trade to Tibet

¶3. (SBU) Nepal runs a significant trade deficit with the PRC, Upadhaya noted. Of Nepal's exports to China, the majority go to Tibet. (Comment: We expect that many of these products are being transshipped to other Chinese provinces, for example Nepalese products can be seen in Chengdu's Tibet Town. End Comment.) China's rules of origin require that Nepalese exports have a minimum of 40 percent Nepalese content, but Nepal hopes to have this lowered to 30 percent to boost exports. While

China has assured Nepal it will grant a concession allowing for preferential access for Nepalese products, the PRC has yet to actually do so, Upadhaya said. (Note: Nepal news reports following Foreign Minister Upendra Yadav's April 2009 visit to China said PRC officials agreed to provide duty free access to 497 Nepalese exports. End Note.)

Upgrading Road Links, and Possibly Rail

¶4. (SBU) The PRC side of the highway connecting Kathmandu to Lhasa is currently being upgraded and is expected to be completed in October, Upadhaya continued. While container trucks travel smoothly the 11-12 hour stretch of road from the border to Lhasa, the four-hour stretch on the Nepal side is passable but difficult, since it is not up to the international standard for roads on which container trucks travel.

¶5. (SBU) Upadhaya confirmed to CG that Nepal has asked China to extend the Qinghai-Tibet railroad line to the border in order to facilitate trade and transportation. This is not yet in China's plans, however, he lamented. (Comment: Upadhaya opined on possible routes the train route could follow, including tracking the current China-Nepal Highway or adding a new line along the Xinjiang-Tibet Highway in the west, but we have heard no such plans from PRC officials. In a separate meeting, TAR Executive Vice Governor Wu Yingjie said this idea is just a "beautiful dream in Nepalese hearts." Embassy Kathmandu notes that only passing references to further transportation links with the TAR

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have been made in the local press and that they are aware of no concrete proposals. End Comment.)

Increasing PRC Investment, Development Assistance

¶6. (SBU) Chinese companies are attracted by Nepal's foreign investment law, Upadhaya said, which provides a nominal tax rate (though no tax holidays). Nepal still seeks additional PRC investment, however. PRC development assistance is increasing, he added, though not very rapidly, rising from an average of RMB 80 (USD 11.7 million) per year through the earlier part of the decade, up to RMB 100 million (USD 14.6 million) last year, now to RMB 150 million (USD 22 million). It is "not like China's investment in Africa," however, he added.

¶7. (SBU) Chinese companies interested in doing business in Nepal include those in the cement, minerals (particularly gold), agriculture, forestry, and medicine industries. The Nepalese traditional pharmaceutical industry is very good, he said, being of higher quality than its Chinese counterpart. China also wants to invest in hydropower in Nepal, he added, arguing that there are good prospects to eventually export electricity to India. (Note: Online news reports suggest Kathmandu plans to generate 25,000 megawatts of hydroelectric power over the next 20 years and that Nepal and India have agreed to expedite construction of a cross-border transmission line. End Note.)

¶8. (U) This cable has been cleared by Embassy Kathmandu.

